

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;  
Michael Kubayanda, Vice Chairman;  
Mark Acton;  
Ann C. Fisher; and  
Ashley E. Poling

Periodic Reporting  
(Proposal Six)

Docket No. RM2020-13

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES  
USED IN PERIODIC REPORTING (PROPOSAL SIX)

(Issued September 23, 2020)

I. INTRODUCTION

On September 15, 2020, the Postal Service filed a petition pursuant to 39 CFR 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.<sup>1</sup> The Petition identifies the proposed analytical changes filed in this docket as Proposal Six.

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), September 15, 2020 (Petition). The Petition was accompanied by a study supporting its proposal. See A. Thomas Bozzo & Tim Huegerich, Analysis of Labor Variability for Automated Letter and Flat Sorting, Christensen Associates, September 15, 2020 (Variability Report). The Postal Service also filed a notice of filing of public and non-public materials relating to Proposal Six. Notice of Filing of USPS-RM2020-13-1 and USPS-RM2020-13-NP1 and Application for Nonpublic Treatment, September 15, 2020.

## II. PROPOSAL SIX

*Background.* Proposal Six introduces a new methodology for estimating volume variabilities for certain mail processing cost pools: Delivery Barcode Sorter (DBCS), Automated Flats Sorting Machine (AFSM) 100, and Flats Sequencing System (FSS). Petition, Proposal Six at 1. The cost pools at issue involve labor expenses associated with the distribution of letters (DBCS) and flats (AFSM 100 and FSS). *Id.* at 2. The Postal Service states that accrued labor costs in these three cost pools totaled \$2.3 billion in FY 2019. *Id.* at 1.

The main factor determining labor requirements for sorting operations is the number of pieces inducted into the operation for processing, total pieces fed (TPF) in the Management Operating Data System (MODS). *Id.* at 2; Variability Report at 7. In automated distribution operations, the actual number of handlings are directly counted by the sorting equipment and automatically transmitted from the equipment to the Web End-of-Run (WebEOR) system. Petition, Proposal Six at 2. MODS collects and aggregates piece handlings and runtime data through automated interfaces with WebEOR. *Id.* Labor usage or workhour data by operation are derived from time clock rings reported to MODS through the Time and Attendance Collection System. *Id.*; Variability Report at 15.

Currently, In-Office Cost System tallies are used to partition the mail processing cost pools into activities assumed to be 100-percent volume-variable, and other activities assumed to be non-volume-variable. *Id.* The basis for such determination was an assumption that mail processing costs should vary in proportion to the volume of mail or articles processed. See Variability Report at 4. For the operations that are the subject of this analysis, the associated mail processing costs were taken to be 99.1-percent volume-variable in FY 2019 under the accepted methodology. *Id.*

This methodology has been in use since Docket No. R71-1, and its origins predate the Postal Reorganization Act and the development of the automated mail processing technologies in this proposal. Petition, Proposal Six at 2. The Postal Service states that the Commission previously declined to adopt any empirical models

for mail processing variability, citing data and econometric issues. *Id.* at 3. However, the Postal Service explains that several factors merit re-examination, including volume changes, the reliability of automated counts of mailpiece handlings, and the availability of machine utilization data. *Id.* at 4.

*Proposal.* The proposed methodology is based on econometric analysis of workhour and workload data collected by the Postal Service on an ongoing basis. *Id.* at 1. Specifically, the estimation of the proposed variabilities employs monthly MODS datasets compiled into a multi-year panel dataset. *Id.* at 5. The variabilities are derived from a regression equation of the natural logarithm, where workhours are used as a dependent variable and the TPF (current and lagged) as well as seasonal dummy variables are used as explanatory variables. *Id.* The regression sample periods cover the most recent 4 fiscal years and would be rolled forward to allow for re-estimating the variabilities annually. *Id.* The variabilities estimated for the three cost pools during a FY 2016-FY 2019 sample period are 0.976 for DBCS, 0.774 for AFSM 100, and 0.804 for FSS. *Id.* at 6.

*Impact.* The proposed methodology would permit re-estimation of the variabilities because the underlying data are produced in the course of Postal Service operations and are already included in the Annual Compliance Report. *Id.* at 1-2. The Postal Service concludes that the proposed methodology would reduce FY 2019 volume-variable labor costs for the three cost pools by 8.3 percent overall. *Id.* at 6. The Postal Service also states that, including piggybacks, the proposal reduces measured volume-variable and product-specific costs in the Cost and Revenue Analysis C Report by 0.79 percent. *Id.* The Postal Service provides a table showing the effects of the proposed variabilities on product unit costs. *Id.* at 6-8. In a separate table filed under seal, the Postal Service shows the impacts of the proposal on individual Competitive products.<sup>2</sup>

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<sup>2</sup> See Library Reference USPS-RM2020-13/NP1, September 15, 2020.

### III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2020-13 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Six no later than November 24, 2020. Pursuant to 39 U.S.C. 505, Lawrence Fenster is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission establishes Docket No. RM2020-13 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), filed September 15, 2020.
2. Comments by interested persons in this proceeding are due no later than November 24, 2020.<sup>3</sup>
3. Pursuant to 39 U.S.C. 505, the Commission appoints Lawrence Fenster to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

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<sup>3</sup> The Commission reminds interested persons that its revised and reorganized Rules of Practice and Procedure became effective April 20, 2020, and should be used in filings with the Commission after April 20, 2020. The new rules are available on the Commission's website and can be found in Order No. 5407. See Docket No. RM2019-13, Order Reorganizing Commission Regulations and Amending Rules of Practice, January 16, 2020 (Order No. 5407).

4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Erica A. Barker  
Secretary